



State Investment Commission
Monthly Meeting Minutes
Wednesday, February 27, 2012
9:00 a.m.
Room 135, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:04 a.m., Wednesday, February 27, 2012 in Room 135, State House.

I. Roll Call of Members

The following members were present: Ms. Rosemary Booth Gallogly, Mr. J. Michael Costello, Mr. Thomas Fay, Mr. Robert Giudici, Ms. Paula McNamara, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

Also in attendance: Ms. Sally Dowling and Alison Albanese, of Adler Pollock, & Sheehan, Mr. Joe Rodio Jr. and Mr. Joseph Pezze, of Rodio & Ursillo Legal Counsel to the Commission; Mr. Alan Emkin and Mr. John Burns, of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Mr. Thomas Lynch of Cliffwater, Alternative Investment Consultant to the Commission; Ms. Lisa Tyrell and Mr. Nick Katsikis, of State Street Corporation; Mr. Frank Picarelli of Segal Advisors; Mr. Kenneth Goodreau, chief investment officer, members of the Governor's staff, members of the media and members of the Treasurer's staff.

Treasurer Raimondo called the meeting to order at 9:04 a.m.

II. Approval of Minutes

On a motion by Mr. Costello and seconded by Ms. Booth Gallogly, it was unanimously **VOTED: To approve the draft of the minutes of the January 25, 2012 meeting of the State Investment Commission.**

III. Cliffwater Presentation

Mr. Lynch introduced Centerbridge and pointed out they are currently a general partner with Rhode Island through their capital fund. He introduced their second strategy, Centerbridge Special Credit partners II which takes non-controlled positions, undervalued credits and companies in financial distress and adds value by improving the company's balance sheet. Mr. Jeffrey Aronson co-founder of Centerbridge introduced himself via telephone. He provided some background about Centerbridge as a firm on page two of the handout. The first fund is private equity focused and the second fund is distressed credit, two counter-cyclical funds. He differentiated it from a private equity strategy. The returns for their first credit fund through December 31, 2011 was a net IRR of 17.4%.

Mr. Aronson described the distressed environment at a macro level. He explained there are a number of good distressed opportunities in certain areas in Europe in particular and the United States as well. Like the last distressed fund, the portfolio will have more U.S. exposure.

He explained the fund has a \$2B hard-cap and the closing is March 1st 2012.

Mr. Lynch reviewed Cliffwater's investment and operations due diligence as well as the legal review of Centerbridge. Cliffwater recommends a \$25M investment because it is a highly sought after vehicle. He explained this is a top manager and a shorter-duration strategy with a higher level of cash flow than a typical private equity investment.

Treasurer Raimondo mentioned she knew a number of investors trying to get into the fund who can't and Mr. Reilly added the fee structure is favorable.

On a motion by Ms. Reback and seconded by Mr. Reilly, it was unanimously

VOTED: To invest \$25 million in Centerbridge Special Credit Partners II subject to negotiation and finalization of documentation after legal counsel review. Ms. Booth Gallogly recused.

IV. TIAA CREFF Presentation

Ed Moslander, Darren Lopes, Tim Walsh and Roger Ferguson from TIAA-CREF entered the room. Mr. Moslander outlined the Treasurer's goals for the plan which are affordability, sustainability and secure retirement for the employees. He explained how TIAA plans to meet these objectives. He explained they are committed to Rhode Island and have over 300 employers which use TIAA as their retirement plan provider. Should they win the mandate TIAA will open an office in Rhode Island. TIAA is a U.S. based non-profit and all the money made beyond expenses benefits the participants in the plan. Mr. Moslander described their history of administering plans since 1919. They currently have the highest financial ratings an insurance company can have from all four major ratings agencies, one of only three in the country and the sole leader in the government space. He explained they provide fiduciary level advice for every employee at no additional charge. Mr. Moslander reviewed the fees and services. There will be over 50 financial consultants on the ground in Rhode Island during the transition to ensure the participants understand changes to the program.

Mr. Lopes discussed TIAA's communication, education and advice programs. He reiterated they will provide fiduciary advice to ensure the employees make sound investment decisions. He reviewed the discovery and planning, announcement, education and evaluation stages. He added TIAA will provide over 250 employees for about 200 seminars, 90 webinars and over 100 counseling desk sessions.

Mr. Walsh reviewed the investment portion of the presentation and explained TIAA offers access to over 15,000 investment options, with innovative asset allocation solutions and unique asset class strategies. He reviewed the default vehicle lineup TIAA recommends initially. He explained the board is able to add and eliminate fund options at any time.

Ms. Booth Gallogly and Mr. Costello asked about portability of the plan. Mr. Reilly asked about technology platforms and Treasurer Raimondo asked about the performance metrics and reiterated retirement readiness should be included.

Mr. Ferguson concluded the presentation, TIAA answered more questions and the TIAA team exited the boardroom.

V. Great-West Presentation

Greg Seller, Brent Neese and Amy Heyel from Great-West entered the room. Mr. Seller gave an overview of the company and explained their large number of state plans assets' under management across the country and in New England. Their main call center is in Andover, MA with local dedicated staff. Mr. Seller reviewed white label custom funds and future opportunities in that space. He explained their national disaster recovery system and their performance guarantee program. He unveiled the stable value investment services and their cost proposal. Ms. Heyel reviewed the active and passive target date plan investment strategies with an average cost of 45 and 22 basis points respectively. She also reviewed recommendations for default options and explained the participant advisory services. Ms. Booth Gallogly asked if the retirement ready report card included the defined benefit and Ms. Heyel said yes, it could. Mr. Neese reviewed Great West's SecureFoundation® program protecting plan members from longevity, market, sequencing and inflationary risk. He then reviewed the communication, branding and educational plans. Ms. McNamara and Mr. Giudici asked what fiduciary responsibilities Great-West assumes and Mr. Seller answered they do provide advice for a fee. The Great-West team answered a few more questions and then exited the room.

VI. Defined Contribution Provider Selection

Mr. Mark Dingley, legal counsel to the Treasurer's office, provided a detailed rubric-based analysis of the site visit to Great-West and TIAA-CREF. He noted while Great-West has more state-level experience, they mostly manage 457 deferred compensation programs, not 401-A plans. Mr. Picarelli reiterated there is a big difference between the two because one is supplemental and one if for retirement.

Mr. Dingley continued to explain TIAA's fee structure is less per member and they have no additional charge for advice.

Mr. Costello reiterated TIAA takes full fiduciary responsibility, while Great-West does not except for their managed accounts. This to him was a big differentiator and other members of the board agreed.

Treasurer Raimondo reiterated TIAA is a AAA rated company has a long history paying benefits where Great-West is AA. Treasurer Raimondo believes this is a big differentiator.

Mr. Reilly provided commentary on if companies are incentivized to offer their own products and Mr. Dingley explained with the open platform the board has full authority to choose any fund.

Mr. Andrew Raucci, Treasury staff spoke about payroll and online capabilities and informed the committee TIAA recently made an acquisition to further improve these processes.

Ms. Reback explained the leadership of the public sector labor community who represents the participants in the plan supports choosing TIAA.

Mr. Costello applauded the process and due diligence efforts and explained we had two reputable choices.

Mr. Picarelli offered his opinion. After further discussion the presenters recommended the board choose TIAA-CREF as the defined contribution plan service provider.

On a motion by Ms. Reback and seconded by Mr. Reilly, it was unanimously

VOTED: To engage TIAA-CREF as the defined contribution vendor provider subject to successful negotiations, legal agreements and completion of reference checks.

VII. General Consultant Presentation

Mr. Emkin gave a brief presentation on fixed income and interest rate risk.

Treasurer Raimondo asked PCA to come to the next meeting with an in-depth presentation on the magnitude of our risk and lead a discussion about potential solutions. She explained this is particularly important because fixed income is such a large part of our portfolio and by definition should be a reliable income stream. She stressed this portion of the portfolio has to perform well to get a targeted 7.5% average rate of return.

Mr. Goodreau explained PCA and Treasury staff is currently conducting performance review meetings with all fixed income managers.

VIII. Legal Counsel Report

There was no legal report.

X. Chief Investment Officer Report

Ms. Reback expressed concern regarding the \$8/person state administrative expense, and Mr. Dingley explained the Treasurer's administration is pushing for the fee to come out of the general fund especially while assets in the defined contribution plan are low initially, but that it is a legislative process and has not been finalized.

Mr. Vincent Izzo, Rhode Island's cash manager made a point of clarification about the Ocean State Investment Pool (OSIP) regarding fund manager notification when the fund exceeds 25% financials.

Mr. Goodreau stated Treasury released a RFI for rebalancing managers which yielded 23 responses.

XI. Treasurer's Report

Treasurer Raimondo had no report.

XII. Adjournment

There being no other business to come before the Board, on a motion by Mr. Costello and seconded by Ms. Booth Gallogly the meeting adjourned at 12:30 p.m.

Respectfully submitted,



Gina M. Raimondo
General Treasurer